REPORT OF THE AUDIT OF THE PERRY COUNTY SHERIFF'S SETTLEMENT - 2002 TAXES

August 31, 2003



CRIT LUALLEN AUDITOR OF PUBLIC ACCOUNTS www.kyauditor.net

105 SEA HERO ROAD, SUITE 2 FRANKFORT, KY 40601-5404 TELEPHONE (502) 573-0050 FACSIMILE (502) 573-0067



CRIT LUALLEN Auditor of Public Accounts

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Denny Ray Noble, Perry County Judge/Executive
Honorable Pat Wooton, Perry County Sheriff
Members of the Perry County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Perry County Sheriff's Settlement - 2002 Taxes as of August 31, 2003.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Perry County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen

Auditor of Public Accounts

Enclosure



REPORT OF THE AUDIT OF THE PERRY COUNTY SHERIFF'S SETTLEMENT - 2002 TAXES

August 31, 2003

ROSS & COMPANY, PLLC Certified Public Accountants

800 Envoy Circle Louisville, KY 40299 Telephone (502) 499-9088 Facsimile (502) 499-9132

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PERRY COUNTY SHERIFF'S SETTLEMENT - 2002 TAXES

August 31, 2003

Ross & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Perry County Sheriff as of August 31, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,821,418 for the districts for 2002 taxes, retaining commissions of \$122,446 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,690,868 to the districts for 2002 Taxes. Taxes of \$520 are due to the districts from the Sheriff and refunds of \$191 are due to the Sheriff from the taxing districts.

Report Comment:

• The Sheriff Should Have A Written Agreement To Protect Deposits

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

<u>CONTENTS</u> PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2002 TAXES	3
Notes To Financial Statements	5
COMMENT AND RECOMMENDATION	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL	
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL	
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13

ROSS & COMPANY, PLLC Certified Public Accountants

800 Envoy Circle Louisville, KY 40299 Telephone (502) 499-9088 Facsimile (502) 499-9132

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Denny Ray Noble, Perry County Judge/Executive
Honorable Pat Wooton, Perry County Sheriff
Members of the Perry County Fiscal Court

Independent Auditor's Report

We have audited the Perry County Sheriff's Settlement - 2002 Taxes as of August 31, 2003. This tax settlement is the responsibility of the Perry County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Perry County Sheriff's taxes charged, credited, and paid as of August 31, 2003, in conformity with the modified cash basis of accounting.

In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated November 21, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Denny Ray Noble, Perry County Judge/Executive
Honorable Pat Wooton, Perry County Sheriff
Members of the Perry County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

• The Sheriff Should Have A Written Agreement To Protect Deposits

Respectfully submitted,

Ross & Company, PLLC

Audit fieldwork completed - November 21, 2003

PERRY COUNTY PAT WOOTON, COUNTY SHERIFF SHERIFF'S SETTLEMENT - 2002 TAXES

August 31, 2003

				Special				
<u>Charges</u>	Col	unty Taxes	Tax	ing Districts	Sc	hool Taxes	Sta	ite Taxes
	Φ	251 216	Ф	400 575	Φ	1 270 707	Ф	<i>(27.702</i>)
Charges Transferred to Incoming Sheriff	\$	351,316	\$	402,575	\$	1,278,785	\$	627,793
Increases Through Exonerations		33		35		121		36
Omitted Taxes		13,347		14,332		49,232		14,770
Franchise Corporation		65,768		88,806		242,845		
Additional Billings		510		472		1,880		546
Unmined Coal - 2002 Taxes		144,948		155,640		534,628		160,393
Oil and Gas Property Taxes		60,219		64,661		222,121		66,636
Penalties		10,946		12,702		39,934		23,293
Gross Chargeable to Sheriff	\$	647,087	\$	739,223	\$	2,369,546	\$	893,467
Credits								
Exonerations	\$	5,269	\$	5,658	\$	19,373	\$	6,927
Discounts		3,681		3,952		13,576		4,073
Delinquents:								
Real Estate		84,017		90,174		304,976		92,440
Tangible Personal Property		14,183		20,366		53,647		51,496
Intangible Personal Property								9,410
Uncollected Franchise		7,400		9,749		27,538		
Total Credits	\$	114,550	\$	129,899	\$	419,110	\$	164,346
Taxes Collected	\$	532,537	\$	609,324	\$	1,950,436	\$	729,121
Less: Commissions a)		22,633		25,896		42,929		30,988
Taxes Due	\$	509,904	\$	583,428	\$	1,907,507	\$	698,133
Taxes Paid		508,898		582,095		1,947,080		695,724
Commissions Refunded from School		,		,		42,929		,
Refunds (Current and Prior Year)		949		1,147		3,486		2,193
							-	
Due Districts or (Refunds Due Sheriff)				b)		c)		

a), b), and c) See Page 4.

as of Completion of Fieldwork

The accompanying notes are an integral part of this financial statement.

57 \$

186

(130) \$

216

PERRY COUNTY PAT WOOTON, COUNTY SHERIFF SHERIFF'S SETTLEMENT - 2002 TAXES August 31, 2003 (Continued)

a) Commissions:

4.25% on \$ 1,870,982 \$ 1,950,436 *

^{*} The Schools allowed the Sheriff a maximum of \$112,937 for the collection of 2002 Taxes. The \$42,929 cost of collecting taxes shown above represents the difference between the \$112,937 and the amount paid to the outgoing Sheriff.

b) Special Taxing Districts:	
Library District	\$ 95
Health District	36
Extension District	35
Watershed District	13
Buckhorn District	 7
Due Districts	\$ 186
c) School Districts:	
Common School District	\$ 61
Hazard Independent District	 (191)
Refunds Due Sheriff	\$ (130)

PERRY COUNTY NOTES TO FINANCIAL STATEMENTS

August 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

PERRY COUNTY NOTES TO FINANCIAL STATEMENT August 31, 2003 (Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 13, 2003 through August 31, 2003.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2002. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 27, 2003 through August 31, 2003.

Note 4. Interest Income

The Perry County Sheriff earned \$1,246 as interest income on 2002 taxes. As of November 21, 2003, the Sheriff owes \$58 in interest to the Perry County school district, is due \$83 in interest from the Graded School, and owes \$45 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Perry County Sheriff collected \$70,336 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Perry County Sheriff collected \$2,260 of advertising costs and \$735 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.



PERRY COUNTY PAT WOOTON, COUNTY SHERIFF COMMENT AND RECOMMENDATION

As of August 31, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of February 6 2003, the Sheriff had bank deposits of \$1,126,736; FDIC insurance of \$100,000; and collateral pledged or provided of \$5,100,000. Even though the Sheriff obtained sufficient collateral of \$5,100,000, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and, (c) an official record of the depository institution.

Sheriff's Response:

No Response.



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROSS & COMPANY, PLLC Certified Public Accountants

800 Envoy Circle Louisville, KY 40299 Telephone (502) 499-9088 Facsimile (502) 499-9132

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Denny Ray Noble, Perry County Judge/Executive
Honorable Pat Wooton, Perry County Sheriff
Members of the Perry County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Perry County Sheriff's Settlement - 2002 Taxes as of August 31, 2003, and have issued our report thereon dated November 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <u>Government Auditing Standards</u> issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Perry County Sheriff's Settlement - 2002 Taxes as of August 31, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under <u>Government Auditing Standards</u> and which is described in the accompanying comment and recommendation.

• The Sheriff Should Have A Written Agreement To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Perry County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards (Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

Ross & Company, PLLC

Audit fieldwork completed - November 21, 2003